
**Application of Electric Insurance Company to Deviate from the
Fixed-and-Established Rates for Private Passenger Automobile Insurance
Docket No. R2004-01**

DECISION

On January 13, 2004, Electric Insurance Company ("Electric") applied, pursuant to G.L. c. 175, § 113B, for permission to deviate downward from the rates for private passenger automobile insurance for 2004, fixed and established by the Commissioner of Insurance in a decision dated December 15, 2003. The application requests a five percent downward deviation on all coverages for vehicles assigned to Step 9 of the Safe Driver Insurance Plan ("SDIP"). By notice dated January 21, 2004, a hearing on the application was scheduled for February 3, 2004. (Exhibit 1.)

The Commissioner designated me as the presiding officer for the proceeding. Electric was represented by Barnett D. Ovrut, Esq., and the State Rating Bureau ("SRB") was represented by Norma J. Brettell, Esq. Cara Blank, an actuary for the SRB, was also present. No other person or entity, including the Attorney General and the Automobile Insurers Bureau, sought to intervene or otherwise participate in the hearing.

In accordance with 211 CMR 77.05(4), Electric's filing consists of a deviation abstract on SRB form DV-1; written testimony of Anne Garside, FCAS, MAAA, Chief Actuary for Electric; and written testimony of Katherine Barnes, FCAS, MAAA, a consulting actuary with Tillinghast-Towers Perrin, with attached actuarial analysis. (Exhibit 2.)

Ms. Garside states in her written testimony that the proposed deviation would be uniformly applied to every motor vehicle Electric insures that is classified in SDIP Step 9 for policies that take effect during 2004. Specifically, she states that in applying the proposed deviation, Electric will not distinguish between the business it writes directly and the business that is produced by its exclusive representative producers ("ERPs"). In addition, she states that the deviation will be applied to the risks it retains and the risks that the company cedes to Commonwealth Automobile Reinsurers. Further, she states that the proposed deviation will be applied in conjunction with any approved group discounts, and she provides an illustration showing that it would be applied multiplicatively.

Ms. Garside also states that the requested deviation will reduce the premium rates that are charged to the company's policyholders who have been historically safe drivers. Ms. Garside states that approximately 62% of the vehicles Electric insures are classified in SDIP Step 9. In addition, she states that the proposed rates are adequate and would have a marginal impact on the company's business operations during 2004. In particular, Ms. Garside states that the deviation will reduce the anticipated premiums that Electric writes during 2004 by approximately \$ 401,000, representing 0.2% percent of its \$ 261.3 million policyholders' surplus, as of September 30, 2003. She also states that Electric's proposed deviation is reasonable because Electric's loss experience for calendar years 2000 to 2002 show motor vehicles classified in SDIP Step 9 had overall loss ratios of 48.5%, which is significantly lower than the loss ratios of 71.5% for its insured vehicles in the remaining SDIP steps. Further, Ms. Garside states that the proposed deviation is not unfairly discriminatory, and it will not be used as a means to attract only those risks that present less hazard of loss than other risks in the same classification. Ms. Garside also asserts that the company's request does not result in an excessive rate and is just.

In Ms. Barnes' written testimony, she states that an actuarial analysis of the deviation requested by Electric shows that its proposed deviation is adequate, just, reasonable, and not unfairly discriminatory. In addition, she states that her actuarial observations imply that the deviation will not likely adversely impact the company's solvency. She states further that the indicated overall downward deviation for SDIP Step 9 business is 23.4 %, which is a greater downward deviation than the amount proposed.

At the hearing, Ms. Garside adopted her written testimony. She also testified that Electric has offered a deviation for the past several years and it wants to continue to offer this benefit to its policyholders, as well as offer a competitive price. She testified that Electric does not have any agreements with other carriers relating to the servicing of its ERP business, and it is not affiliated with any other insurance company that is authorized to write private passenger automobile insurance in Massachusetts. Ms. Barnes also testified at the hearing. She discussed the basis for her actuarial analysis and confirmed her conclusion that Electric's deviation request for SDIP Step 9 satisfies the statutory requirements. At the conclusion of the hearing, the SRB stated that without endorsing any particular argument, input or methodology presented by Electric, it did not object to the approval of Electric's deviation request.

Analysis

An insurer's application to deviate downward from the private passenger automobile insurance rates, fixed and established by the Commissioner, is governed by G.L. c. 175, § 113B and 211 CMR 77.00. The Commissioner will approve a rate deviation request, after hearing, only if she finds that the proposed premium charges are "adequate, just, reasonable and nondiscriminatory and will not be used as a means of attracting only such risks as are regarded as presenting less hazard of loss than other risks in the same classification." G. L. c. 175, § 113B. In addition, the deviation proposed must be uniformly applied throughout the Commonwealth. *Id.* The Commissioner also considers whether the insurer's proposal complies with all applicable Massachusetts insurance statutes and regulations.

Under G.L. c. 175, §113B, individual insurance companies are permitted to apply to the Commissioner for a percentage decrease from the rates, but may not vary the classifications of risks. *See Application of Liberty Mutual Insurance Company*, DOI Docket No. R95-23 at 4.

This decision may be appealed in the manner and to the extent permitted by G.L. c. 26, § 7 and G.L. c. 175, § 113B.